

# Medical Savings Accounts

## Background

Medical savings accounts (MSAs) are accounts into which contributions are made by employers and/or employees and may be used to pay for routine medical care. These accounts allow for savings to build up over time to pay for future medical expenses. MSAs operate in conjunction with a high-deductible, catastrophic health insurance policy. Depending on the cost of the catastrophic policy and the size of the MSA, the combination can be less expensive than a traditional insurance policy. As a result, some employers can establish an MSA with the money they would have used to purchase a traditional health insurance policy.

Funds in an MSA can be used for any qualifying medical expenses, including satisfying the health insurance deductible. They earn interest, and sometimes receive favorable tax treatment by the state or federal government. The funds in the MSA belong to the insured, and if not spent, accumulate over time. After a year, the individual can retain the funds in the MSA, or use them for other purposes.

MSAs have become increasingly popular at the state level. In the past three years, more than forty states have considered MSA proposals, and as of June 1995, thirteen states have enacted MSA-enabling legislation. In addition to the private sector, several states are considering providing MSAs to their state employees.

While MSA laws vary from state to state, they do contain several common elements. First, where applicable they grant a state income tax deduction for funds deposited into an MSA. Second, the maximum amount that can be deposited into an MSA is generally capped at \$2,000 or \$3,000 annually, with adjustments allowed in certain cases for spouses, dependents, and medical inflation. And third, most of the laws apply a penalty (usually 10%) to withdrawals from MSAs for non-medical purposes.

## MSAs in Washington State

In 1995 the State Legislature authorized MSAs in both the public and private sector as an alternative to traditional health insurance programs. Chapter 48.68 RCW outlines the intent of MSAs in this regard. Since MSAs have been authorized, state purchasing agents considering MSAs have not yet identified a strategy where they are confident there will be cost savings to the state as either a purchaser or a carrier. However, private employers have implemented forms of MSAs in some circumstances and some local school districts have provided MSAs as an alternative for use of "optional benefits funds."

There is nothing in state law that prohibits MSAs from being implemented in the private sector. However, one of the incentives for establishing an MSA is the tax savings. Since Washington State does not have a state income tax, many employers have been slow to implement the program.

MSAs are an issue in regards to **Senate Bill 5649**, which was recently heard in the Senate Health

and Long-Term Care Committee. Some proponents of the bill argue it will make more school district benefit funds available to purchase MSAs as “optional benefits”. The bill would do this by reducing the number of “basic benefits” which would have to be purchased before “optional benefits” can be considered.